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Report Highlights: The local beef sector is being challenged to reach target export sales volumes and price margins due to growth in both New Zealand's production and global supplies along with a strengthened New Zealand dollar. Beef exports in 2003 are forecast to increase to 535,000 tons, but will nevertheless fall significantly below export availabilities.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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Wellington [NZ1], NZ

SECTION I. SITUATION & OUTLOOK

New Zealand's total cattle population in July 2002 is estimated at 9.61 million head, up 3.5 percent over a year earlier. Beef cattle numbers showed an unusually large increase to 5.03 million head, as cattle that might have been destined for slaughter in the previous season (October 2001 - September 2002) were held over into the current season. The beef breeding herd increased to 1.53 million in July 2002, in response to improved breeding herd profitability. The national dairy cattle population increased to 4.58 million thanks to new dairy farm conversions in the South Island. The total New Zealand cattle population in July 2003, is forecast to fall to 9.59 million. This reduction is based upon reflects the delay anticipated in the slaughter of beef cattle carried forward from a year earlier and lower bobby calf retentions in the spring of 2002.

The total beef and veal slaughter figure for 2002-2003 is forecast to reach 3.85 million. Cattle slaughter will increase 9 percent to 2.37 million in 2002-2003. An increase in the number of dairy calves born and a reduced retention of dairy-origin calves for bull beef production in the spring of 2002 will result in a 9 percent increase in bobby veal slaughter to 1.48 million.

A combination of increasing bobby calf slaughter weights (average of 17.3 kg.) and a higher slaughter total will lift export grade bobby veal production 16 percent to 25,000 tons CWE (Carcass Weight Equivalent). Despite a similar average cattle slaughter weight (262.2 kg.), an increased slaughter figure will lift export grade beef production 10 percent to 532,700 tons (CWE). This will allow beef and veal export grade production to reach 558,000 tons (CWE). Export growth is not likely to go beyond 535,000 tons (CWE) in the 2002-2003 season due to the global supply situation and the current strength of New Zealand's currency.

Record Australian beef exports resulting from a drought-impacted beef cattle slaughter, the reentry of South American beef into the Canadian market, and recent strength in New Zealand's currency will pressure New Zealand beef export volumes and returns to North America and North Asia. Of considerable concern to New Zealand's producers is the potential for South American producers to recapture market share previously lost to New Zealand after Uruguayan and Argentine beef was banned from the Canadian market due to Foot and Mouth Disease (FMD) in 2001. This had allowed New Zealand exporters to sell an additional 35,000 tons (product weight) to Canada in 2001 and again in 2002. South Korea and Taiwan show promising export sales potential in the North Asian region. The announced application of safeguard tariffs and recent BSE-infected cattle findings are likely to dampen import demand growth in Japan. Competition in the North Asian market region by South American producers is expected to be strong in 2002-2003.

In a drive to develop alternative markets, Meat New Zealand has initiated a program of generic market development activities in French Polynesia, the Middle East, and China. New Zealand exporters will compete for the European low-quality import quota, according to industry sources.

SECTION II. STATISTICAL TABLES

PS&D TABLE - CATTLE NUMBERS

PSD Table						
Country	New Zealand					
Commodity	Animal Numbers, Cattle				(1000 HEAD)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Total Cattle Beg. Stks	9020	9020	9270	9280	9590	9614
Dairy Cows Beg. Stocks	3360	3360	3480	3480	3550	3550
Beef Cows Beg. Stocks	1479	1452	1494	1473	1509	1525
Production (Calf Crop)	3666	3712	4005	3919	3772	3874
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	12686	12732	13275	13199	13362	13488
Intra EC Exports	0	0	0	0	0	0
Other Exports	11	11	13	11	13	11
TOTAL Exports	11	11	13	11	13	11
Cow Slaughter	592	939	685	1088	750	1211
Calf Slaughter	1180	1204	1350	1352	1480	1478
Other Slaughter	1588	1253	1596	1093	1568	1159
Total Slaughter	3360	3396	3631	3533	3798	3848
Loss	45	45	41	41	41	41
Ending Inventories	9270	9280	9590	9614	9510	9588
TOTAL DISTRIBUTION	12686	12732	13275	13199	13362	13488
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PS&D TABLE - BEEF/VEAL PRODUCTION

PSD Table						
Country	New Zealand					
Commodity	Meat, Beef and Veal				(1000 MT CWE)(1000 HEAD)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Slaughter (Reference)	3360	3396	3631	3533	3798	3848
Beginning Stocks	27	27	0	0	0	0
Production	590	609	616	589	632	642
Intra EC Imports	0	0	0	0	0	0
Other Imports	7	15	9	19	11	10
TOTAL Imports	7	15	9	19	11	10
TOTAL SUPPLY	624	651	625	608	643	652
Intra EC Exports	0	0	0	0	0	0
Other Exports	500	521	510	503	530	535
TOTAL Exports	500	521	510	503	530	535
Human Dom. Consumption	124	130	115	105	113	117
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	124	130	115	105	113	117
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	624	651	625	608	643	652
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	278	278	303	288	303	303

SECTION III. SUPPLY AND DEMAND, POLICY & MARKETING

STOCK NUMBERS

Numbers of all classes of cattle (beef cattle, beef breeding cows, dairy cattle) increased during the 2001-2002 season, bringing the mid-year 2002 total cattle population to 9.61 million. The industry witnessed a marked increase in the number of "finishing" beef cattle held through the 2000-2001 drought and which failed to reach target slaughter weights this past season. These animals were carried through the winter of 2002 and resulted in a 5 percent increase in beef cattle numbers to 5.03 million as of July 2002. An increased demand for breeding cows during 2001-2002 was driven by improved breeding herd profitability coupled with favorable climatic conditions, increased pasture fertilizer usage, and the utilization of breeding cows in pasture management. This led to a 3.5 percent increase in the number of breeding cows to 1.53 million head as of July 2002. Dairy farm expansion and 83 new dairy farm conversions in the spring of 2002, which occurred mainly in the South Island, contributed to a 2 percent increase of the national dairy cattle herd to 4.58 million as of July 2002. North Island dairy cattle numbers remained stable at 3.5 million head while South Island dairy cattle increased 7.4 percent to 1.08 million head.

Slaughter of the additional "finishing" beef cattle carried forward from the 2001-2002 season and lower bobby calf retentions, estimated at 522,000 in the spring of 2002, are being largely offset by an increase in the dairy cattle population. This will result in a minimal decline in the total cattle population by mid-year 2003. Beef cattle in July 2003 are projected to decline 1.4 percent to 4.96 million head. The local industry's expectation that beef prices will ease during 2002-2003 is likely to reduce bobby calf retentions almost 20 percent to 434,000 animals in the spring of 2003. The increase in dairy cattle projected for the current season will not exceed 1 percent due to a reduced milksolids payout. This will result in a decrease in the number of applications for dairy farm conversions. The increase in New Zealand's dairy cattle herd will largely come from increased herd sizes on recently converted farm operations. Taken together, these developments will result in a slight decrease in New Zealand's total cattle population to 9.59 million as of July 2003.

BEEF AND VEAL PRODUCTION

An increased number of "finishing" beef cattle carried over from the previous season is expected to increase cattle slaughter to 2.37 million head during the 2002-2003 season. An increase in the birth of dairy calves and a reduced retention of dairy-origin calves for bull beef production in the spring of 2002 (estimated to drop to 522,000) will increase bobby veal slaughter to 1.48 million animals. Total beef and veal slaughter during 2002-2003 is forecast to reach 3.85 million animals.

Average bobby calf slaughter weight for 2002-2003 is projected to increase 5 percent to 17.3 kg. Coupled with an increased slaughter total, total bobby veal production is forecast to increase 14 percent to a record 25,600 tons CWE. Export grade production is forecast to increase to 25,000 tons (CWE).

Average cattle slaughter weight in 2002-2003 is forecast at 262.2 kg., similar to the previous season. In response to a larger animal slaughter figure, beef production is forecast to rise 8 percent to 616,700 tons (CWE). Export grade beef production is forecast to increase 10 percent to 532,700 tons (CWE). Total beef and veal export grade production is projected to increase to 558,000 tons (CWE). Beef and veal exports in the 2002-2003 season are forecast at 535,000 tons (CWE).

BEEF DEMAND

Overview

Export market conditions for New Zealand's beef in 2003 will be challenging for local beef producers. Domestic market conditions, however, will run counter to this trend as domestic beef prices are coming down in response to falling export prices. The North American market region (United States, Canada, Mexico) absorbed three quarters of New Zealand's total beef exports in 2001-2002. Competing in this market region will become increasingly difficult in 2002-2003 and will likely remain so until a phase of herd rebuilding begins in the United States and Australia in 2003. Several factors during the coming year could prove difficult for New Zealand's export sales. The anticipated increase in New Zealand's export grade beef production will put pressure on exporters to find additional overseas markets. Record beef exports from a drought-impacted Australian beef cattle slaughter is expected to exert downward price pressure through the second quarter of 2003. Beef supplies from South American producers, re-admitted to the Canadian market, threaten New Zealand's recently gained market share in Canada. Asian markets may absorb some of the increase in New Zealand's export grade production, although competition from Australia and South American producers will limit additional sales. Market development activities in French Polynesia, the Middle East and China represent alternative market opportunities that New Zealand exporters are most likely to target. New Zealand exporters also are likely to compete for the European quota for lower quality beef as Europe moves closer to becoming a net beef importer.

Given the international supply situation, only 32,000 tons (CWE) of the additional 50,000 tons (CWE) of export grade production forecast to be available in 2002/2003 is expected to be successful in reaching export channels. The remainder will be directed to domestic consumers, and possibly into short-term beef inventories. According to industry officials, the local market is able to absorb the additional volume, especially if beef prices become more attractive relative to poultry meat. A strong New Zealand dollar, which has risen more than 30 percent against the U.S. dollar over the past twelve months (1 U.S. \$ = 1.82 NZ \$ as of January 31, 2003), is reducing domestic beef prices in New Zealand dollar terms and encouraging local consumption. An analysis of New Zealand's key export beef markets follows.

North America (United States, Canada)

The United States accounts for close to 60 percent of all New Zealand beef exports.

Opportunities for increased export sales to the United States, however, are constrained by New Zealand's export quota of 213,402 tons (product weight). New Zealand did not fill its allocated quota during the last two years. New Zealand is likely to fill the quota in 2002/2003. Australian beef supplies will compete strongly during the first half of 2003 as Australia tries to sell its beef from a record cattle slaughter.

Competition from South American producers in the Canadian market is threatening New Zealand's market share which grew significantly over the last two years. Canadian restrictions imposed in 2001 on Uruguayan and Argentine beef created the opportunity for increasing New Zealand's sales into this market. New Zealand more than trebled its exports to Canada from 15,000 tons to nearly 50,000 tons (product weight) during the past two years. Uruguay recently regained its FMD-free status in December 2002 and Argentina is likely to regain its FMD-free status in March 2003. A resumption of Canadian imports from Uruguay, and possibly Argentina in 2003, is likely to cause a reduction in New Zealand's exports to this market. A drop in sales to pre-2001 levels could mean a 35,000 ton (product weight) reduction in New Zealand beef shipments to Canada.

North Asia (Japan, South Korea, Taiwan)

North Asia is New Zealand's second largest market region, taking close to 60,000 tons in both 2001 and 2002. This represents 15 percent of total New Zealand beef exports. New Zealand export sales to Japan were nearly halved during 2002 in the wake of the BSE (Bovine Spongiform Encephalopathy) crisis. Japanese consumer demand for beef initially fell sharply but rebounded dramatically towards the end of 2002. Japan recently announced, however, that it will apply a safeguard measure which will raise tariffs on imported beef from 38.5 percent to 50 percent. Under an 8 year-old WTO arrangement, Japan is entitled to apply the higher tariffs once a trigger level for beef imports is reached. The higher tariffs probably will apply from August 2003 and will stay in effect until April 2004, unless the Japanese Government decides to waive application of the tariffs by changing existing legislation. Japan's Health Ministry discovered two cases of BSE in slaughtered cattle in January 2003. These cases were detected by a mandatory testing regime introduced in October 2001 for all cows slaughtered for human food production. The most recent BSE findings are likely to slow the recovery of beef consumption levels in Japan.

The local industry views the outlook for New Zealand beef in North Asia as positive. A doubling of exports to South Korea largely offset the decline in Japanese demand. As long as the South Korean economy remains buoyant, further gains in export sales to this market are likely. Export sales prospects to the Taiwanese market also are favorable. New Zealand increased its export shipments to this market 20 percent in the 2001-2002 season. A reduction in Taiwan's beef import duty should assist in stimulating demand. Sales to North Asian markets will face stiff competition from South American and Australian exporters. According to local industry representatives, export growth potential to individual markets in the North Asian region is limited to no more than a few thousand tons of additional beef from New Zealand.

Southeast Asia (Indonesia, Malaysia, Singapore, Philippines)

Southeast Asia constitutes New Zealand's third largest export market region for beef. Exports to this region decreased 11 percent in the 2001-2002 season. This was due mainly to a 65 percent reduction in exports to the Philippines caused by strong competition from low-priced Brazilian beef and Indian buffalo. This competition is expected to continue through the 2002-2003 season. Export data also reveal that New Zealand increased its sales of higher quality, value-added cuts to the region.

POLICY

Pastoral Greenhouse Gas Research Consortium (PGGRC)

The New Zealand Government's ratification of the Kyoto Protocol on climate change in December 2002, has committed New Zealand to limit its average net emissions of greenhouse gases between 2008 and 2012 to no more than 1990 levels. New Zealand's adherence to the Kyoto Protocol will address the long-term risks of climate change, allow New Zealand to make a gradual transition in becoming a low emitter, and will enable New Zealand to maintain its international "clean and green" image. The Government hopes that the establishment of an international carbon trade market will provide an income to the government from selling carbon credits created from forests planted since 1990.

The New Zealand livestock industry is a large contributor (43 percent) to New Zealand's carbon emissions in the form of methane gas. The Government has granted livestock farmers an exemption from a carbon tax, but the sector is expected to spend NZ \$20 million (U.S. \$11 million) annually on research directed at the reduction of methane gas emissions. In response to the Government's directive, a collaborative agricultural research effort, the Pastoral Greenhouse Gas Research Consortium (PGGRC), was launched in January 2003 with the aim of lowering livestock methane gas emissions. A more uncertain research outcome sought is the improvement of animal productivity as a by-product of reduced methane gas emissions. The PGGRC brings together as joint venture partners Meat New Zealand (the operational name for the New Zealand Meat Board), Wrightson, Fonterra, DEEResearch and AgResearch. Total funding for the PGGRC during its first year of operation is estimated at NZ \$1.6 million (U.S. \$880,000), half of which will come from the Government's Foundation for Research Science and Technology. Meat New Zealand views research into the reduction of greenhouse gas emissions, without achieving the benefit of increased animal productivity, as a public benefit that should be paid for entirely by the Government and not by livestock farmers. Meat New Zealand argues that potential productivity gains are too uncertain to justify livestock farmer contributions.

European Union Declares New Zealand Free from BSE

The European Union's Scientific Steering Committee (SSC) has declared New Zealand free of BSE. The European Commission inquiry collected up-to-date "scientific opinions" on the BSE-status in 23 countries. The SSC concluded that there is no risk of BSE infectivity in New Zealand and that the likelihood that New Zealand cattle are infected with BSE is minimal. This is good news for New Zealand beef producers, especially since Meat New Zealand's promotion of beef (and lamb) focuses on the exceptional health status of New Zealand's animals, including freedom from BSE. The SSC, however, did express concern over what it deemed a lack of New Zealand's capacity to respond to a potential BSE outbreak.

MARKETING

McDonalds' Trials of New Zealand Beef Promising for New Zealand Producers

Trials of New Zealand and Australian beef in 300 U.S. McDonalds restaurants during 2002 were concluded satisfactorily for the American fast food company. A delegation from McDonalds visited New Zealand to discuss potential future supply arrangements. Currently, 100,000 tons (product weight) of New Zealand exports to the United States are sold to Burger King, which also sources beef from Australia. Similar interest by McDonalds would make U.S. market demand for New Zealand beef more secure. It is unlikely, however, to lead to increased beef exports to the United States based upon current quota levels.

Promotional Activities in China & Middle East

Thanks to the accession of China to the WTO and an imminent reduction of Chinese tariffs on frozen beef imports (from 25.2 percent to 12 percent) and on beef or bobby veal offal imports (from 15.2 percent to 12 percent), Meat New Zealand believes there is considerable potential for increasing beef exports to this market. Meat New Zealand promoted its beef in China for "fancy meats" and offal at the Food and Hotel Asia show held in Shanghai in September 2002. It seeks to position New Zealand beef as the preferred choice of future supply for China-based importers. During the show, Meat New Zealand hosted an importer function at a prestigious hotel where New Zealand exporters (Advanced Marketing, Affco, Alliance, ANZCO, Horizon and Richmonds) and their local agents were able to exchange views. In China and the rest of Asia, New Zealand is targeting mid-level family restaurants, steak houses, hotel coffee houses and Chinese restaurants to lift demand for its with grass-fed beef. With an understanding that pork is the main meat consumed in China, Meat New Zealand is striving to introduce New Zealand beef to Chinese-style cooking by developing a series of recipes using standard muscle cuts such as beef shanks, ribeye and mince. Another series of recipes features New Zealand beef and bobby veal offal, including beef aorta, beef tendon, and stomach lining. Meat New Zealand plans to represent New Zealand beef at the next Food and Hotel China show in March 2003. Exports of New Zealand beef to China increased 300 percent to 800 tons in the 2001-2002 season.

Meat New Zealand will also exhibit at the Gulf Food Trade Fair in Dubai in February 2003. The Middle-East's mid-level restaurant trade will be targeted. More than one-third of Meat New Zealand's export promotional budget for 2003 of NZ \$9 million (U.S. \$4.95 million) will be directed to generic market development activities for beef.